# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 7127**
**BILL NUMBER:** HB 1211

**NOTE PREPARED:** Jan 29, 2014
**BILL AMENDED:** Jan 28, 2014

**SUBJECT:** Indexing Family Tax Exemptions.

**FIRST AUTHOR:** Rep. Brown T
**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1st House

**FUNDS AFFECTED:** X **GENERAL**
**DEDICATED**
**FEDERAL**

**IMPACT:** State & Local


**Summary of Legislation:** (Amended) The bill requires that the income tax exemption for individuals, dependents, individuals who are blind, and the elderly (including a dependent child and the elderly with an adjusted gross income less than $40,000) must be adjusted according to the Consumer Price Index. It requires the Department of State Revenue to publish certain information concerning adjustments to personal exemptions on the transparency Internet web site.


**Effective Date:** (Amended) January 1, 2014 (retroactive); July 1, 2014.

**Explanation of State Expenditures:** (Revised) *Department of State Revenue (DOR):* The Department of State Revenue will incur additional expenses to revise tax forms, instructions, and computer programs to reflect the changes made by the bill. The DOR will also have to publish certain information on the Indiana transparency portal. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** (Revised) The bill would reduce revenue to the state General Fund from the individual adjusted gross income (AGI) tax starting in FY 2015. The revenue loss in any fiscal year would depend on the impact of the cumulative growth in inflation on each exemption beginning in 2014. The table below shows the estimated fiscal impact for FY 2015 to FY 2021.

| Fiscal Year | Reduction in Indiana Taxable Income (Millions $) | Revenue Loss to State General Fund (Millions $) |
|---|---|---|
| **2015** | ($161.7) | ($5.5) |
| **2016** | ($308.1) | ($10.2) |
| **2017** | ($460.0) | ($15.2) |
| **2018** | ($639.9) | ($20.7) |
| **2019** | ($811.7) | ($26.2) |
| **2020** | ($1,015.4) | ($32.8) |
| **2021** | ($1,197.8) | ($38.7) |

Current law provides the following exemptions from an individual taxpayer's AGI:
(1) $1,000 per personal exemption claimed on the taxpayer's federal income tax return.
(2) $1,500 per dependent child.
(3) $1,000 if the taxpayer or taxpayer's spouse is 65 years old or older or the taxpayer or taxpayer's spouse is blind.
(4) $500 if the taxpayer is 65 years old or older and the taxpayer's federal AGI is less than $40,000.

Starting in tax year 2014, the bill allows the above exemptions to be increased by the annual rate of growth of the Consumer Price Index (CPI) for all items and all urban consumers published by the U.S. Bureau of Labor Statistics. The bill provides the method of calculating the CPI growth rate and the adjusted exemption amounts and requires DOR to publish the adjusted exemption amounts. The provision in the bill that changes the dependent child exemption amount to $2,000 will not have any impact as the provision requiring the inflation adjustment sets the base exemption amount at $1,500, regardless. The table below shows the current exemption level for 2013 and the estimated adjusted exemption levels for tax years 2014 to 2021.

| Inflation Adjustments and Exemption Levels 2013- 2020. | | | | | | |
|---|---|---|---|---|---|---|
| **Tax Year** | **Estimated Inflation Adjustment** | **Estimated Cumulative Inflation Adjustment** | **Estimated Personal Exemption** | **Estimated Dependent Child Exemption** | **Estimated Elderly or Blind Exemption** | **Estimated Low Income Elderly Exemption** |
| **2013** | Base Year | | $1,000 | $1,500 | $1,000 | $500 |
| **2014** | 1.75% | 1.75% | $1,018 | $1,526 | $1,018 | $509 |
| **2015** | 1.63% | 3.41% | $1,034 | $1,551 | $1,034 | $517 |
| **2016** | 1.62% | 5.08% | $1,051 | $1,576 | $1,051 | $525 |
| **2017** | 1.89% | 7.07% | $1,071 | $1,606 | $1,071 | $535 |
| **2018** | 1.82% | 9.02% | $1,090 | $1,635 | $1,090 | $545 |
| **2019** | 2.05% | 11.25% | $1,113 | $1,669 | $1,113 | $556 |
| **2020** | 1.88% | 13.34% | $1,133 | $1,700 | $1,133 | $567 |
| Note: Inflation calculation is based on IHS Global Insight's CPI (U) forecast. | | | | | | |

*Additional Information:* Indiana Individual AGI tax provides for four exemptions.

(1) A taxpayer is allowed $1,000 for each exemption claimed on the taxpayer's federal income tax return.

(2) An additional $1,500 exemption is allowed for certain dependent children. According to state statute, a dependent child must be a son, stepson, daughter, stepdaughter and/or foster child (and/or the taxpayer's spouse's child, if filing a joint return). He/she must be either under the age of 19 by December 31 of the tax year or be a full-time student who is under the age of 24 by December 31 of the tax year.

(3) If the taxpayer and/or the taxpayer's spouse (in the case of a joint return) is age 65 or older, the taxpayer can take an additional $1,000 exemption. If the taxpayer and/or taxpayer's spouse (in the case of a joint return) is legally blind, the taxpayer and/or taxpayer's spouse can take an additional $1,000 exemption.

(4) An additional $500 exemption is available for the taxpayer and/or taxpayer's spouse (in the case of a joint return) if the taxpayer and/or taxpayer's spouse is age 65 or older and the federal AGI amount on the tax return is less than $40,000.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** State taxable income , which is reduced by the provisions in the bill, is also the basis of calculating the local option income tax (LOIT). Based on an average LOIT rate of 1.4%, the bill would result in reducing LOIT tax collections as shown in the table below. The revenue loss in future fiscal years would depend on the rate of inflation as measured by using the CPI and any change in LOIT rates.

| Fiscal Year | Statewide LOIT Revenue Loss (Millions $) |
|---|---|
| **2015** | ($2.3) |
| **2016** | ($4.3) |
| **2017** | ($6.4) |
| **2018** | ($9.0) |
| **2019** | ($11.4) |
| **2020** | ($14.2) |
| **2021** | ($16.8) |

**State Agencies Affected:** Department of State Revenues

**Local Agencies Affected:** Units of local government that impose Local Option Income Tax.

**Information Sources:** OFMA, Income Tax Database; IHS Global Insight, U.S. Forecast; Bureau of Labor Statistics, Consumer Price Index Release.

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